

**REPORT OF**

**ASSOCIATION EXAMINATION**

**OF**

**UNIVERSAL LIFE INSURANCE COMPANY**

**BIRMINGHAM, ALABAMA**

**AS OF**

**DECEMBER 31, 2004**

**PARTICIPATION:**

**SOUTHEASTERN ZONE  
ALABAMA**

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**STATE OF ALABAMA  
COUNTY OF JEFFERSON**

Blase Francis Abreo, being first duly sworn, upon his oath deposes and says:

THAT he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of *UNIVERSAL LIFE INSURANCE COMPANY* for the period of January 1, 2003 through December 31, 2004;

THAT the following 61 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

Francis Blase Abreo

Blase Francis Abreo, CFE

Subscribed and sworn to before the undersigned authority this 10<sup>th</sup> day of March, 2006.

Christine W. Johnson

(Signature of Notary Public)

Christine W. Johnson, Notary Public

(Print Name)

in and for the State of Alabama

My commission expires 11-18-09



BOB RILEY  
GOVERNOR

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Birmingham, Alabama  
March 10, 2006

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Alabama Department of Insurance  
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Montgomery, Alabama 36104

Dear Commissioners and Director:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2004, has been made of **UNIVERSAL LIFE INSURANCE COMPANY** at its home office located at 1728 3<sup>rd</sup> Avenue North, Birmingham, Alabama 35203. The report of examination is submitted herewith.

Where the description "Company" appears herein, without qualification, it will be understood to indicate **Universal Life Insurance Company**. See "SCOPE OF EXAMINATION" pages 2-5 for important disclosures.

## SCOPE OF EXAMINATION

A full scope financial and market conduct examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the *Alabama Insurance Code* and the regulations and bulletins of the State of Alabama Department of Insurance in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The Company was last examined for the two-year period ended December 31, 2002, by examiners from the State of Alabama. The current examination covers the intervening period from the date of the last examination through December 31, 2004, and was conducted by examiners from Alabama, representing the Southeastern Zone, NAIC. Where deemed appropriate, transactions subsequent to December 31, 2004, were reviewed.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested other than those noted in the "Notes to the Financial Statement." Assets were verified and valued, and all known liabilities were established or estimated as of December 31, 2004 [see "Notes to the Financial Statement"]. However, the discussion of assets and liabilities contained in this report has been confined to those items which resulted in a change to the financial statements, or which indicated a violation of the *Alabama Insurance Code* and the Insurance Department's rules and regulations or other insurance laws or rules or which were deemed by the examiner to require comments and/or recommendations.

Company office copies of the filed Annual Statements for the years 2003 and 2004 were compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a review of the Company's territory, plan of operation, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, claims, and privacy policies and practices.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2004. A signed letter of representation was also obtained at the conclusion of the examination

whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities.

**THIS REPORT OF EXAMINATION IS QUALIFIED AND EXPRESSES NO OPINION ON THE ACCURACY OF THE FINANCIAL STATEMENTS OF UNIVERSAL LIFE INSURANCE COMPANY. FURTHERMORE, DUE TO THE COMPANY'S INABILITY OR UNWILLINGNESS TO PROVIDE INFORMATION REQUESTED BY THE EXAMINERS DURING THE COURSE OF THE EXAMINATION, THE EXAMINERS WERE UNABLE TO DETERMINE IF THE COMPANY WAS SOLVENT OR INSOLVENT. THE REASONS FOR THE QUALIFICATION OF THE REPORT CAN BE FOUND IN VARIOUS SECTIONS AND CAPTIONS OF THE REPORT.**

The Company did not maintain adequate records and workpapers to support all accounting transactions, which was not in compliance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted.”

The records in question were related to, but were not limited to, the following items:

- Electronic data files provided to the examiners did not contain certain significant fields to examine specific line items, and had data integrity issues:
  1. The contract loans data set, with cash surrender values, was requested on November 16, 2005 and was not provided as of the examination report date.
  2. An aging of due premium at December 31, 2004.
- Original documentation, which included application and claim files, requested to verify the accuracy of the electronic data provided by the Company were as follows:
  1. For a sample of 76 2005 paid claims, 35 application files were not provided.
  2. For a sample of 32 in force accident and health policies, 26 application files were not provided.
- Reconciliation of the following data sets to the 2004 Annual Statement balance sheet, exhibits and schedules: 1) In force policy listings, 2) Aggregate reserve for life contracts, 3) 2004 Paid claims and 4) 2004 Premiums collected.
- Documentation for the Accidental Death Benefit reserves, Disability-Active

Lives or Disabled Lives, or its Miscellaneous Reserves totaling \$153,844 included within the Aggregate reserve for life contracts.

- Fidelity bond and other insurance policies to protect the Company against hazards to which it might be exposed.
- Policyholders' files, which included application files, claim files, complaint files, underwriting files, etc. For comments on files that were not provided see sections "MARKET CONDUCT ACTIVITIES" and "NOTES TO FINANCIAL STATEMENTS" under specific captions to which they pertain.

The Company did not provide all requested information in a timely manner in accordance with Alabama Department of Insurance Regulation No. 118, Section 6(1999), which states:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner..."

Records not provided in a timely manner included, but were not limited to, the following items:

- Various electronic data files, which include cash disbursements/receipts, due and deferred premiums, premiums received in advance, in-force policies listings (Life), and claim payments.
- Reconciliation of the following data sets to the 2004 Annual Statement balance sheet, exhibits and schedules: 1) Aggregate reserve for life contracts, 2) Aggregate reserve for accident and health contracts, 3) Contract claims, and 4) Due and deferred premiums.
- Documentation supporting bond acquisitions and disposals, related parties transactions, aggregate write-ins for other assets, reinsurance transactions, remittances and items not allocated, and taxes, licenses and fees.
- Bank reconciliations, which include outstanding check listings and deposits in transit.
- Company's responses and procedures implemented as a result of the internal audit recommendations.
- A response regarding whether or not the Company has implemented an information security program.
- Policyholders' files, which included application files and claim files. For comments on files that were not provided see sections "MARKET CONDUCT ACTIVITIES" and "NOTES TO FINANCIAL STATEMENTS" under specific captions to which they pertain.



- Information necessary for the documentation of MARKET CONDUCT ACTIVITIES, which include Company plan of operation, complaint handling, producers licensing, marketing and sales, and policyholders services.
- Original documentation, which included application and claim files, requested to verify the accuracy of the electronic data provided by the Company.

## **ORGANIZATION AND HISTORY**

The information contained in this section of the examination report was excerpted from prior examination reports and updated as appropriate.

The Company was organized and incorporated under the statutes of the State of Tennessee on March 16, 1923. It commenced business in the same year, operating as a capital stock legal reserve life insurance company. The original authorized capital of the Company was \$100,000 and consisted of 1,000 shares of common stock with a par value of \$100 each. Several amendments to the Charter have had the effect of increasing the total authorized stock to 100,000 shares and reducing the par value to \$16 per share. The total shares outstanding, at December 31, 2004, were 65,884.

Since inception, the Company has been a party to the following mergers, acquisitions and reinsurance transactions:

- In 1926, the Company reinsured Arkansas, Mississippi and Texas industrial business of the Mississippi Life Insurance Company, which had previously been reinsured by the Southern Insurance Company of Nashville, Tennessee.
- In 1926, the business of the Great Southern Mutual Insurance Company of Little Rock, Arkansas was reinsured.
- In August 1941, the Company reinsured the business of the Old Faithful Life Insurance Company of Longview, Texas under a Reinsurance Agreement approved by the Insurance Departments of Tennessee and Texas.
- In 1948, the Company purchased the business of the Peoples Life and Accident Insurance Company of Dallas, Texas.
- In 1961, the Company merged the business, assets and liabilities of the Louisiana Life Insurance Company in accordance with an agreement and plan of merger was filed on January 2, 1961, in the Parish of Orleans.

- During 1965, the Company purchased all of the outstanding capital stock of the Richmond Beneficial Life Insurance Company of Richmond, Virginia, and merged the business, assets and liabilities.
- In 1976, the Company purchased the Texas ordinary and industrial business of Afro-American Life Insurance Company of Florida.
- On September 10, 1980, the Company merged with Union Protective Life Insurance Company.
- On January 12, 1987, "Articles of Merger" between the Company and Security Life Insurance Company of the South were executed after having been approved by the Insurance Departments of the States of Mississippi and Tennessee.
- Effective January 1, 1992, the Company purportedly purchased all of the business of Freedom National Insurance Company of Little Rock, Arkansas per a "Reinsurance Agreement." The Company stated this acquisition had been approved by the State of Arkansas, but a copy of the Order could not be provided. The State of Tennessee was not notified regarding this acquisition.
- Effective January 1, 1998, the Company entered into a coinsurance agreement with American Capitol of Houston, Texas (American Capitol) whereby American Capitol coinsured all of the Company's life insurance in force written before December 31, 1997. As provided for in the agreement, American Capitol elected to convert the agreement from a coinsurance agreement to a portfolio assumption effective November 1, 1999. See "REINSURANCE" on page 17 for further discussion.
- The Company was purchased by Protective Industrial Insurance Company of Alabama (PIICO) on September 22, 2000. On July 12, 2002, the Company redomesticated from the State of Tennessee to the State of Alabama.
- On April 16, 2004, Booker T. Washington Insurance Company (BTW) purchased the outstanding stock of PIICO, making PIICO a wholly owned subsidiary of BTW.
- On August 1, 2004, PIICO was merged into the Company.

## **MANAGEMENT AND CONTROL**

### **Stockholder**

The Company was a stock corporation with ultimate control vested in its stockholder. As of December 31, 2004, ESOP was the ultimate owner of the Company and Booker T. Washington Insurance Company (BTW) was the direct parent company. The number of shares of common capital stock outstanding at December 31, 2004, was 65,884 with a par value of \$16 per share.

### **Board of Directors**

The members elected to the Board of Directors and serving at December 31, 2004, were as follows:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
Walter Howlett, Jr. Birmingham, Alabama	Chairman of the Board, and President of BTW
Cleophus Thomas Jr. Anniston, Alabama	Executive Vice President, and General Counsel
Barry Anthony Williams Birmingham, Alabama	Sr. Vice President, and Treasurer of BTW
Josie Diane Skanes** Birmingham, Alabama	Senior Vice President, and Corporate Secretary of BTW.
Booker Joseph* Birmingham, Alabama	Sr. Vice President, and Chief Marketing Officer of BTW

\*Resigned in 2005. \*\*Resigned in 2006.

Review of the minutes of the Board of Directors of Protective Industrial Life Insurance Company (PIICO) and the Company before and after the merger of PIICO into the Company indicated that no investments were approved or ratified by the Board of Directors, which was in conflict with ALA. CODE § 27-41-5(1975), which requires that:

“An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee...”

## **Officers**

The following officers were elected by the Board of Directors and were serving at December 31, 2004:

<b><u>Officers</u></b>	<b><u>Title</u></b>
Walter Howlett, Jr.	Chairman of the Board, and President
Josie Diane Skanes	Sr. Vice President – Administrative and Corporate Secretary
Barry Anthony Williams	Sr. Vice President, and Treasurer
James Carl Harrison*	Actuary

\*Resigned in 2005

## **Committees**

There were no committees during the examination period.

## **Conflict of Interest**

The conflict of interest statements were provided for 2004 with no conflicts disclosed; however, the Company did not provide the 2003 conflict of interest statements for its officers or directors. The minutes of the Board of Directors meeting held on October 21, 2004, indicated that the Board adopted the Conflict of Interest Statement and the Conflict of Interest Policy of Booker T. Washington Insurance Company, the Company's parent company. The Company incorrectly completed General Interrogatory number 14 under the 2004 General Interrogatories- Part 1 which asks

"Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person?"

The answer "No" was marked.

## **CORPORATE RECORDS**

The Company's Certificate of Incorporation, By-Laws, and related amendments were inspected and found to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations.

Records of the meetings and actions of the Stockholders and Board of Directors were reviewed. Other than the items noted under the caption "MANAGEMENT AND CONTROL," the minutes appeared to be complete with regards to recording actions taken on matters before the respective bodies for deliberation and action.

## **HOLDING COMPANY AND AFFILIATE MATTERS**

### **Holding Company Matters**

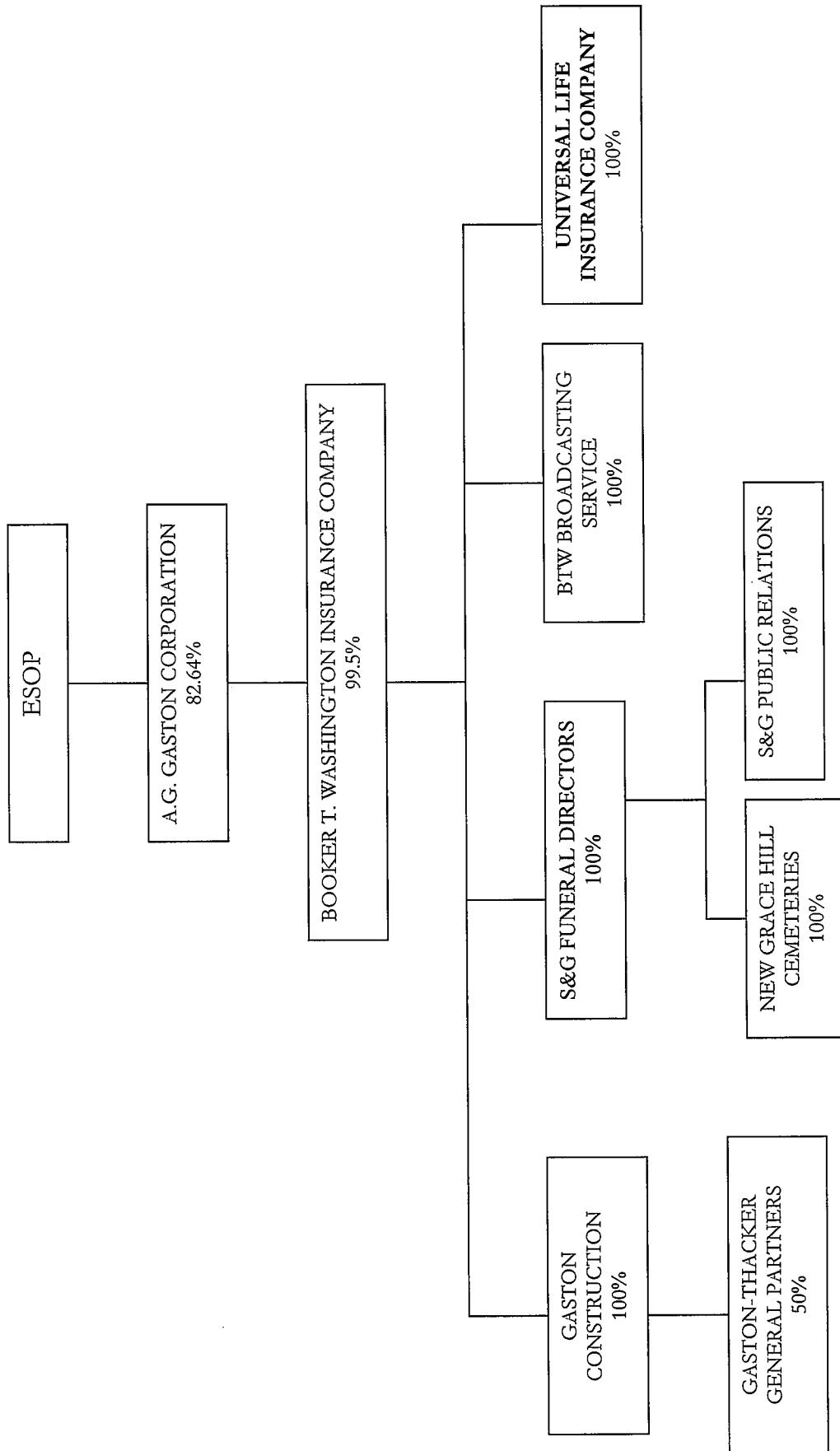
The Company was subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act were made by Protective Industrial Insurance Company, the Company's parent in 2003 and by Booker T. Washington Insurance Company, the Company's parent in 2004.

### **Organizational Chart**

The Company did not insert an organizational chart in Schedule Y-Part 1 of its 2004 Annual Statement, which was not in compliance with the NAIC Annual Statement Instructions.

The attached organization chart is taken from Booker T. Washington Insurance Company's Schedule Y-Part 1 of the 2004 Annual Statement. The chart presents the identities of all interrelationships among all affiliated persons within the Insurance Holding Company System as of December 31, 2004:



## **Transactions and Agreements with Affiliates**

### ***Business Consultant and Management Agreement***

- The agreement is between Booker T. Washington Insurance Company, Inc. (BTW) and the Company (Universal Life Insurance Company) with an effective date of August 16, 2004. This agreement was approved by the Alabama Department of Insurance. In this agreement, the Company desired to engage the services of BTW to perform certain services regarding the general administrative and management functions for the Company's operation, as an independent contractor and not as an employee.
- BTW will provide the following services: (1) billing and collection services, (2) claims processing services, and (3) related data processing services.
- BTW shall receive \$2,000 monthly from the Company for the performance of the services to be rendered for the Company pursuant to the terms of the agreement.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company did not obtain fidelity bond insurance in accordance with the NAIC Financial Condition Examiners Handbook, which contains a calculation that specifies the minimum amount of coverage to be maintained.

As of January 24, 2006, no other insurance coverage was reviewed by the examiners.

## **EMPLOYEE AND AGENTS WELFARE**

All individuals who performed administrative and operational functions for the Company were employees of Booker T. Washington Insurance Company, Inc., the Company's parent. These employees were offered the following benefits:

- Employee Stock Ownership Plan (ESOP);
- 401(k) Plan;
- Group Medical and Dental Insurance;
- Group Life Insurance;
- Paid Vacation;

- Sick Leave;
- Paid Holidays; and
- Deferred compensation plan for its key executive employees (2002).

### **Section 1033 of Title 18 of the US Code**

All individuals who performed administrative and operational functions for the Company were employees of Booker T. Washington Insurance Company, Inc., the Company's parent. Booker T. Washington Insurance Company, Inc., was asked how it determined if prospective and current employees were in conflict with Section 1033 of Title 18 of the US Code and ALA. ADMIN. CODE 482-1-121(2003), which prohibits certain persons from participating in business of insurance.

A review of Company documentation indicated that the Company complied with Section 1033 of Title 18 of the US Code an ALA. ADMIN. CODE 482-1-121(2003).

### **SPECIAL DEPOSITS**

At December 31, 2004, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows:

<u>State</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Alabama*	\$ 537,000	\$ 539,076	\$ 559,034
Arkansas	200,000	200,063	203,096
Tennessee	345,000	349,233	353,361
Virginia	<u>253,088</u>	<u>253,088</u>	<u>253,088</u>
<b>TOTALS</b>	<b><u>\$1,335,088</u></b>	<b><u>\$1,341,460</u></b>	<b><u>\$1,368,579</u></b>

\*Held for the protection of all policyholders

### **MARKET CONDUCT ACTIVITIES**

#### **Territory**

At December 31, 2004, the Company was licensed to transact business in the following nine states and the District of Columbia:



Alabama  
Arkansas

Kansas  
Louisiana  
District of Columbia

Missouri  
Oklahoma  
Mississippi

Tennessee  
Texas

The Certificates of Authority for the respective jurisdictions were inspected for the period under review and found to be in order. However, according to Schedule T of the 2003 and 2004 Annual Statements, the Company recorded that it was also licensed to write business in Virginia.

Company management indicated that the Company voluntarily withdrew its license from Virginia on October 31, 1995, at the request of the Virginia Bureau of Insurance, because the Company did not meet the State of Virginia's minimum capital and surplus requirement of \$4,000,000. The examiners determined that the Company inappropriately completed its 2003 and 2004 Schedule T, which was not in compliance with the NAIC Annual Statement Instructions.

### **Plan of Operation**

No new business was written by the Company since 1998 even before it was acquired by Protective Industrial Insurance Company (PIICO) on September 22, 2000. On April 16, 2004, Booker T. Washington Insurance Company (BTW) acquired PIICO and merged PIICO into the Company. At the time of the merger, PIICO had issued 914 new ordinary life policies. These 914 policies were reported in the Exhibit of Life Insurance of the Company's 2004 Annual Statement. Company management indicated that there were no plans to issue new policies.

### **Policy Forms and Underwriting Practices**

The Company did not issue any new policy forms during the two-year period covered by the examination.

On October 28, 2005, the examiners requested policyholder application files for a sample of fifty policies (from the 914 policies noted above) issued during 2004. The Company did not provide a response or the information requested by the examiners. Alabama Department of Insurance Regulation No. 118, Section 6 (1999), states:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule..."

### **Advertising and Marketing**

The examiners reviewed the Company's minutes of the Board of Directors meetings and noted that there were no marketing plans as of December 31, 2004.

On October 6, 2005, a request for the Company to disclose whether it had any joint marketing agreements with affiliated or nonaffiliated third parties was made. No response was received for this request. The Company is required to comply with Alabama Department of Insurance Regulation No. 118, Section 6 (1999), which states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule...”

### **Dividends to Policyholders**

The Company did not pay dividends to policyholders during the years 2003 and 2004. The Summary of Operations of the Company's 2004 Annual Statement, prior year column, indicated \$20,879 in dividend to the policyholders. Company management indicated that PIICO had paid dividend to its policyholders in the year 2003. PIICO was merged in the Company on August 1, 2004, and the accounts and records of PIICO were combined with the Company's records for the purpose of the 2004 Annual Statement.

### **Claims Payment Practices**

On September 22, 2005, the detailed listing of the 2004 paid life and accident and health claims, which reconciled to Exhibit 8 – Part 2 was requested by the examiners. As of the date of the examination report, the Company did not provide the information. ALA. CODE § 27-27-29 (a) (1975), requires:

“Every domestic insurer shall have, and maintain...complete records of its assets, transactions and affairs...as to the kind, or kinds, of insurance transacted.”

The Company is also required to comply with Alabama Department of Insurance Regulation No. 118, Section 6 (1999), which requires that:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule.”

### ***Reporting Resisted Claims in the Annual Statement***

On September 13, 2005, an explanation detailing why there were no resisted claims reported in the Company's 2004 Schedule F was requested. As of January 24, 2006, the Company had not provided a response to the request. According to Alabama Department of Insurance Regulation No. 118, Section 6 (1999), states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule...”

### **Policyholder Complaints**

The Company did not maintain adequate written procedures for handling complaints. The Company should detail and address in its procedures how both written and verbal complaints are handled as follows:

- The Company should indicate its responsibility to respond to the customer and/or Alabama Department of Insurance (ALDOI) within ten days in accordance with Alabama Department of Insurance Bulletin dated January 31, 1963, which states

“complaints from the Department of Insurance to your Company must be answered within ten days after receipt thereof or an adequate excuse be supplied therefore...”

- Additionally, the Company did not state in its written complaint procedures nor in its producer's training materials its responsibility to inform Company personnel regarding the monetary penalties for noncompliance with complaint procedures;
- The Company should detail in its written procedures how complaints are responded to in writing. The Company's current complaint procedures only referenced how complaint “calls” are handled;
- The Company did not evidence or indicate that its written procedures are “periodically reviewed in order to maximize the value of its complaint records

as a management tool” in accordance with the guidelines of the NAIC Unfair Trade Practices Act;

- The complete name of the insurer should be referenced in written response to the customers;
- If applicable, the insurance department's phone number should also be included in the content of the written response to the customers.
- The Company's telephone number and name of the person handling the complaint should be included and/or disclosed in the content of written responses to the customers.

The above mentioned guidelines should be documented in the Company's written complaint procedures in accordance with ALA. CODE § 27-27-29 (a) (1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable to the kind, or kinds, of insurance transacted.”

Certain complaint procedures were not completed as of January 4, 2006..

### **Compliance with Agents' Licensing Requirements**

No new business was written by the Company since 1998 even before it was acquired by Protective Industrial Insurance Company (PIICO) on September 22, 2000. On April 16, 2004, Booker T. Washington Insurance Company (BTW) acquired PIICO and merged PIICO into the Company. At the time of the merger, PIICO had issued 914 new ordinary life policies through its agents; the contracts of these agents were terminated by BTW. The Company had no agents at December 31, 2004.

### **Privacy Policies and Practices**

[Compliance with ALA. ADMIN. CODE 482-1-122(2002), formerly known as Alabama Department of Insurance Regulation No. 122.]

The Company did not disclose in its customer service procedures its responsibility for providing adequate training of its employees regarding the specifics for protecting the confidentiality and security of policyholders and consumers nonpublic personal information in accordance with ALA. ADMIN. CODE 482-1-122.07 (2001) (6), which states:

“(6) Confidentiality and security. A licensee describes its policies and practices with respect to protecting the confidentiality and security of nonpublic personal financial information if it does both of the following: (a) Describes in general terms who is authorized to have access to the information. (b) States whether the licensee has security practices and procedures in place to ensure the confidentiality of the information in accordance with the licensee's policy.”

The Company is also required to comply with ALA. ADMIN. CODE 482-1-126-.08 (2001), which states:

“(a) Designs its information security program to control the identified risks, commensurate with the sensitivity of the information, as well as the complexity and scope of the licensee's activities. (b) Trains staff, as appropriate, to implement the licensee's information security program.”

### **FINANCIAL CONDITION/GROWTH OF THE COMPANY**

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

Year	Gross Premiums Written	Admitted Assets	Liabilities	Capital and Surplus
2004**	1,603,280	18,282,721	16,560,254	1,722,467
2003	832,057	7,178,670	2,715,018	4,463,652
2002	698,467	7,664,663	2,626,550	5,038,114

\*\* Per examination. Amounts for the remaining years were obtained from Company copies of filed Annual Statements. Also See “SCOPE OF EXAMINATION” – Pages 2-5 for important disclosures.

### **REINSURANCE**

The Company had no assumed reinsurance at December 31, 2004. According to the Company's 2004 Schedule S- Part 3 - Section 1, the Company's ceded reinsurance agreement with American Capitol Insurance (ACAP) represented 81.31% of the amount of in force and 99.62% of the reserve credit taken.

The Company entered into a coinsurance agreement in 1997 with American Capitol Insurance Company (ACAP). Coinsured policies included both ordinary and industrial policies, paid-up, premium paying policies, and policies with loans. The Company's "combination policies," which had a life and an accident and health

benefit, were not covered by the agreement nor were any of its accident and health policies. The policies coinsured with ACAP were eventually assumed by ACAP with the exception of business from Virginia and Missouri. These two states did not approve the assumption, as the policyholders in these states would have to approve the assumption; therefore, ACAP was administering and continued coinsuring the business from these states.

The Company did not report the ceded reinsurance premiums of \$281,338 for ACAP in its 2004 Schedule S- Part 3- Section 1 and in its 2004 Exhibit 1- Part 1 in accordance with the NAIC Annual Statement Instructions. Also, the Company did not reflect the claims incurred amounts and liabilities for its ACAP business in its 2004 Exhibit 8- Part 1 and Part 2, which was not in accordance with the NAIC Annual Statement Instructions. This error did not effect the Company's December 31, 2004 surplus. The Company did not disclose in its 2004 Notes to Financial Statements the information required by the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual SSAP No. 61 paragraph 57 b. and f., which were the methods employed in the valuation of substandard policies and the nature of significant other reserve changes.

## **ACCOUNTS AND RECORDS**

The Company's accounting records are maintained primarily on electronic data processing equipment, with certain records maintained manually.

The Company is audited annually by the certified public accounting firm of Banks, Finley, White & Company. The audit reports and workpapers were made available for the examiners review.

The 2003 and 2004 actuarial opinions were prepared by Mr. James C. Harrison, FSA, MAAA with Harrison and Associates, Inc.

The previous examination report recommended that the Company complete its Five-Year Historical Data Schedule in accordance with the NAIC Annual Statement Instructions. The amounts in the aforementioned schedule were reconciled to the corresponding amounts in the Company's 2004 Annual Statement without exception; however for 2003, the amounts reported for lines 50, 52, 56, 57, 58, 59, 68, 69, 70, 71, and 79 did not reflect the combined amounts for the Company and Protective Industrial Insurance Company, which was merged into the Company in 2004. In this same schedule, the Company did not report combined amounts for 2000 through 2002. The NAIC Annual Statement Instructions states "In the case of a merger, prior

year's amounts reported for assets, liabilities, surplus, revenues and expenses, as well as those amounts reflected in supporting annual statement schedules, should be reported on a merged basis consistent with the current year's post-merger reporting basis."

**THIS REPORT OF EXAMINATION IS QUALIFIED AND EXPRESSES NO OPINION ON THE ACCURACY OF THE FINANCIAL STATEMENTS OF UNIVERSAL LIFE INSURANCE COMPANY. FURTHERMORE, DUE TO THE COMPANY'S INABILITY OR UNWILLINGNESS TO PROVIDE INFORMATION REQUESTED BY THE EXAMINERS DURING THE COURSE OF THE EXAMINATION, THE EXAMINERS WERE UNABLE TO DETERMINE IF THE COMPANY WAS SOLVENT OR INSOLVENT. THE REASONS FOR THE QUALIFICATION OF THE REPORT CAN BE FOUND IN VARIOUS SECTIONS AND CAPTIONS OF THE REPORT.**

The Company did not maintain adequate records and workpapers to support all accounting transactions, which was not in compliance with ALA. CODE § 27-27-29(a)(1975), which states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted."

The records in question were related to, but were not limited to, the following items:

- Electronic data files provided to the examiners did not contain certain significant fields to examine specific line items, and had data integrity issues:
  1. The contract loans data set, with cash surrender values, was requested on November 16, 2005 and was not provided at the examination report date.
  2. An aging of due premium at December 31, 2004.
- Original documentation, which included application and claim files, requested to verify the accuracy of the electronic data provided by the Company were as follows:
  1. For a sample of 76 2005 paid claims, 35 application files were not provided.
  2. For a sample of 32 in force accident and health policies, 26 application files were not provided.
- Reconciliation of the following data sets to the 2004 Annual Statement balance sheet, exhibits and schedules 1) In force policy listings, 2) Aggregate reserve for life contracts, 3) 2004 Paid claims and 4) 2004 Premiums collected.
- Documentation for the Accidental Death Benefit reserves, Disability-Active

Lives or Disabled Lives, or its Miscellaneous Reserves totaling \$153,844 included within the Aggregate reserve for life contracts.

- Unclaimed property filings were not provided for the examination period.
- Policyholders' files, which included application files, claim files, complaint files, underwriting files, etc. For comments on files that were not provided see sections "MARKET CONDUCT ACTIVITIES" and "NOTES TO FINANCIAL STATEMENTS" under specific captions to which they pertain.

The Company did not provide all requested information in a timely manner in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner..."

Records not provided in a timely manner included, but were not limited to, the following items:

- Various electronic data files, which include cash disbursements/receipts, due and deferred premiums, premiums received in advance, in-force policies listings (Life), and claim payments.
- Reconciliation of the following data sets to the 2004 Annual Statement balance sheet, exhibits and schedules 1) Aggregate reserve for life contracts, 2) Aggregate reserve for accident and health contracts, 3) Contract claims, and 4) Due and deferred premiums.
- Documentation supporting bond acquisitions and disposals, related parties transactions, IMR/AVR, aggregate write-ins for other assets, commissions to agents due and accrued, reinsurance transactions, amounts held or retained by company as agents and trustee, taxes, licenses and fees, and fidelity bonds.
- Bank reconciliations, which include outstanding check listings and deposits in transit.
- Company's responses and procedures implemented as a result of the internal audit recommendations.
- A response regarding whether or not the Company has implemented an information security program.
- Policyholders' files, which included application files and claim files. For comments on files that were not provided see sections "MARKET CONDUCT ACTIVITIES" and "NOTES TO FINANCIAL STATEMENTS" under specific captions to which they pertain.



- Information necessary for the documentation of MARKET CONDUCT ACTIVITIES, which include Company plan of operation, compliant handling, producers licensing, marketing and sales, and policyholders services.
- Original documentation, which included application and claim files, requested to verify the accuracy of the electronic data provided by the Company.

### **Disaster Recovery Plan**

The NAIC Information System Questionnaire (ISQ) assists the examiners in determining the strength and weaknesses within the insurers' Information System Department. Company management's responses indicated that there were several weaknesses, including, but not limited to the disaster recovery plan, which had never been tested. The Company is in process of updating the disaster recovery plan.

## **FINANCIAL STATEMENTS INDEX**

The Financial Statements included in this report were prepared based on the Company's records, the valuations and determinations made during the examination for 2004. Amounts shown in the comparative statement for 2003 was compiled from the Company's copy of the filed Annual Statement. The statements are presented in the following order:

	<u>Page</u>
Statement of Assets, Liabilities, Surplus and Other Funds	23 and 24
Summary of Operations	25
Capital and Surplus Account	26

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN  
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**SEE "SCOPE OF EXAMINATION" PAGES 2 – 5 FOR IMPORTANT DISCLOSURES.**

**UNIVERSAL LIFE INSURANCE COMPANY**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**For the Year Ended December 31, 2004**

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
<b>ASSETS</b>			
Bonds (Note 1)	\$11,383,157		\$11,383,157
Preferred stocks	1,013		1,013
Common stocks	1,773,402		1,773,402
Mortgage loans on real estate:			
First liens (Note 2)	1,761,431		1,761,431
Real estate:			
Properties held for sale (Note 3)	293,551	81,640	211,911
Cash (\$904,142) (Note 4) and Short-term investments (\$696,499)	1,600,640		1,600,640
Contract loans (Note 5)	732,801	292,711	440,090
Aggregate write-ins for invested assets (Note 6)	<u>29,256</u>	<u>0</u>	<u>29,256</u>
Subtotals, cash and invested assets	\$17,575,251	\$374,351	\$17,200,900
Investment income due and accrued	200,181		200,181
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection (Note 7)	1,111,500	518,187	593,313
Deferred premiums, agents' balances and Installments booked but deferred and not yet due	100,628		100,628
Guaranty funds receivable or on deposit (Note 8)	187,699		187,699
Electronic data processing equipment	174,239	174,239	
Furniture and equipment, including health care delivery assets	5,687	5,687	-0-
Other assets nonadmitted (Note 9)	<u>790,869</u>	<u>790,869</u>	<u>-0-</u>
<b>TOTALS</b>	<b><u>\$20,146,054</u></b>	<b><u>\$1,863,333</u></b>	<b><u>\$18,282,721</u></b>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN  
THIS REPORT ARE AN INTEGRAL PART THEREOF.

SEE "SCOPE OF EXAMINATION" PAGES 2 – 5 FOR IMPORTANT DISCLOSURES.

**UNIVERSAL LIFE INSURANCE COMPANY**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**For the Year Ended December 31, 2004**

<b>LIABILITIES</b>	
Aggregate reserve for life policies and contracts (Note 10)	\$15,086,000
Aggregate reserve for accident and health policies (Note 11)	16,110
Liability for deposit-type contracts	71,052
Policy and contract claims:	
Life (Note 12)	241,626
Accident and health (Note 13)	35,929
Policyholders' dividends (Note 14)	2,489
Premiums and annuity considerations received in advance (Note 15)	61,786
Policy and contract claims not included elsewhere:	
Interest maintenance reserve (Note 16)	207,542
General expenses due or accrued (Note 17)	54,086
Taxes, licenses and fees due or accrued (Note 18)	6,506
Unearned investment income (Note 19)	13,654
Amounts withheld or retained by company as agent or trustee	34,177
Amounts held for agents' account	3,131
Remittances and items not allocate (Note 20)	0
Miscellaneous liabilities:	
Asset valuation reserve (Note 21)	434,915
Aggregate write-ins for liabilities (Note 22)	<u>291,251</u>
<b>Total Liabilities</b>	<b>\$16,560,254</b>
<b>CAPITAL AND SURPLUS</b>	
Common capital stock (Note 23)	\$ 1,054,144
Preferred capital stock	-0-
Gross paid in contribution surplus	2,351,434
Unassigned funds (surplus) (Note 24)	-1,683,111
<b>Total Surplus</b>	<b>668,323</b>
<b>Total Capital and Surplus</b>	<b><u>1,722,467</u></b>
<b>TOTAL LIABILITIES, CAPITAL AND SURPLUS</b>	<b><u>\$18,282,721</u></b>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN  
THIS REPORT ARE AN INTEGRAL PART THEREOF.

SEE "SCOPE OF EXAMINATION" PAGES 2 – 5 FOR IMPORTANT DISCLOSURES.

**UNIVERSAL LIFE INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

	<b><u>2004</u></b>	<b><u>2003</u></b>
<b><u>Income:</u></b>		
Premiums and annuity consideration (Note 9)	\$1,603,280	\$2,712,538
Net investment income	865,063	207,578
Amortization of IMR	98,961	(136,185)
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts		925,000
Aggregate write-ins for Miscellaneous income	<u>611,978</u>	<u>44,457</u>
<b>Total Income</b>	<b>\$3,179,282</b>	<b>\$3,753,388</b>
<b><u>Deductions:</u></b>		
Death Benefits	\$1,151,124	\$1,245,681
Matured endowments	5,760	-0-
Disability benefits and benefits under accident and health contracts	(145,734)	486,115
Surrender benefits and withdrawals for life contracts	362,976	378,202
Interest and adjustments on contract or deposit-type contract funds (direct business)		1,830
Increase in aggregate reserves for life and accident and health contracts	238,684	(210,926)
Commissions on premiums, annuity considerations and deposit-type contract funds (direct business)	140,496	491,536
General insurance expenses	2,637,605	2,288,062
Insurance taxes, licenses and fees, excluding federal income taxes	164,194	257,126
Increase in loading on deferred and uncollected premiums.	<u>(321,079)</u>	<u>(155,950)</u>
<b>Total deductions</b>	<b>\$4,234,026</b>	<b>\$4,781,676</b>
Net gain from operations before dividends to policyholders and federal income taxes	\$(1,054,744)	\$(1,028,288)
Dividends to policyholders	-0-	20,879
Federal income taxes incurred	-0-	-0-
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	\$(1,054,744)	\$(1,049,167)
Net realized capital gains or (losses) less capital gains of \$-0- (excluding taxes of \$-0- transferred to the IMR)	<u>1,520,457</u>	<u>41,193</u>
<b>Net income</b>	<b>\$ 465,713</b>	<b>\$(1,007,974)</b>

NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT  
ARE AN INTEGRAL PART THEREOF.  
SEE "SCOPE OF EXAMINATION" PAGES 2 – 5 FOR IMPORTANT DISCLOSURES.

**UNIVERSAL LIFE INSURANCE COMPANY**  
**CAPITAL AND SURPLUS ACCOUNT**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Capital and surplus,</b>		
<b>December 31, prior year</b>	<u>\$2,418,880</u>	<u>\$10,410,531</u>
<b>Gains and (losses) in surplus:</b>		
Net income	\$ 465,713	\$-1,007,974
Change in net unrealized capital gains or (losses)	-0-	120,842
Change in net deferred income tax	-0-	-0-
Change in nonadmitted assets and related items	373,779	15,287
Change in asset valuation reserve	-63,638	-41,558
Change in treasury stock	-0-	-0-
Transferred to capital (stock dividend)	-0-	-0-
Dividends to stockholders	-0-	-78,248
Aggregate write-ins for gains and losses in surplus	-8,472,264	-0-
Rounding adjustment	<u>-3</u>	<u>-0-</u>
<b>Net change in capital and surplus for the year</b>	<u>\$ -7,696,413</u>	<u>\$ -991,651</u>
<b>Capital and surplus, December 31, current year</b>	<u>\$ 1,722,467</u>	<u>\$2,418,880</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN  
THIS REPORT ARE AN INTEGRAL PART THEREOF.

SEE "SCOPE OF EXAMINATION" PAGES 2 – 5 FOR IMPORTANT DISCLOSURES.

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Bonds

\$11,383,157

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

The Company did not review changes in prepayment assumptions for its loan-backed securities, which was not in compliance with NAIC Accounting Practices and Procedures Manual SSAP No. 43, paragraph 9-12. This guidance states the following:

“9. Prepayments are a significant variable element in the cash flow of loan-backed securities because they affect the yield and determine the expected maturity against which the yield is evaluated. Falling interest rates generate faster prepayment of the mortgages underlying the security, shortening its duration. This causes the reporting entity to reinvest assets sooner than expected at potentially less advantageous rates. This is called prepayment risk. Extension risk is created by rising interest rates which slow repayment and can significantly lengthen the duration of the security.

10. Changes in prepayment assumptions and the resulting cash flows shall be reviewed periodically. For securities that have the potential for loss of a portion of the original investment due to changes in interest rates or prepayments, the review shall be performed at least quarterly. For other securities, the review shall be performed at least annually. Examples of securities that have the potential for loss of a portion of the original investment include CMO residuals and mortgage-backed interest-only certificates. For these securities, an effective yield or internal rate of return is calculated at acquisition based on the purchase price and anticipated future cash flows.

11. The prepayment rates of the underlying loans shall be used to determine prepayment assumptions. Prepayment assumptions shall be applied consistently across portfolios to all securities backed by similar collateral (similar with respect to coupon, issuer, and age of collateral). Reporting entities shall use consistent assumptions across portfolios for similar collateral within controlled affiliated groups. Since each reporting entity may have a unique method for determining the prepayment assumptions, it is impractical to set standard assumptions for the industry. Relevant sources and rationale used to determine each prepayment assumption shall be documented by the reporting entity.

12. Loan-backed securities shall be revalued using the new prepayment assumptions using either the prospective or retrospective adjustment methodologies, consistently applied by type of securities.”

The prepayment assumption methodologies used should either be prospective or retrospective with guidance for these methodologies found in Paragraphs 13 and 14 of SSAP No. 43 in the NAIC Accounting Practices and Procedures Manual. This was also noted in the prior examination.

**Note 2 - Mortgage loans on real estate****\$1,761,431**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

According to the Company's 2004 Schedule B-Part 1, the Company did not complete column 11 (Value of Land and Building), column 12 (Date of Last Appraisal) and the mortgage loan General Interrogatory of Schedule B-Part 1, which was not in accordance with the NAIC Annual Statement Instructions.

**Note 3 - Real estate: Properties held for sale****\$211,911**

The captioned amount is \$42,401 less than the \$254,312 reported by the Company in its 2004 Annual Statement. As of January 24, 2006, the review of this asset had not been completed by the examiners.

There were discrepancies noted for the following properties totaling \$42,401 and were nonadmitted due to the following statutes:

<b>Property*</b>	<b>Book Value*</b>	<b>Fair Value*&amp;</b>	<b>Not admitted by Examiners</b>	<b>Year Property Acquired *</b>	<b>Statute Non-compliance (see statute cited below)</b>
Rental Property@	\$ 2,000	No appraisal	~\$2,000	Not reported	ALA. CODE §27-41-4 (1975) ALA. CODE § 27-37-7 (1975)
1720 Holman Avenue **	3,000	2,800	~200	July 17, 1996	ALA. CODE § 27-37-7(1975)
553-571 Walnut **	10,000	8,000	~2,000	January 15, 1996	ALA. CODE § 27-37-7(1975)
308 Simpson@	~3,000		3,000	October 30, 1991	ALA. CODE § 27-41-4 (1975) and ALA. CODE § 27-41-34(b)(2)(c)(1975)
309 W. Dison@	~3,000	2,500	3,000	November 11, 1996	ALA. CODE § 27-41-4 (1975) and ALA. CODE § 27-37-7(1975)
785 Richmond@	~6,161		6,161	July 14, 1981	ALA. CODE § 27-41-4 (1975) and ALA. CODE § 27-41-34(b)(2)(c)(1975)
2782 Yale@	~3,000		3,000	December 10, 1992	ALA. CODE § 27-41-4 (1975) and ALA. CODE § 27-41-34(b)(2)(c)(1975)
2348 Brooklyn@	~3,000	2,800	3,000	January 30, 1991	ALA. CODE § 27-41-4 (1975), ALA. CODE § 27-41-34(b)(2)(c)(1975), and ALA. CODE § 27-37-7(1975)
2465 Douglas@	~8,566		8,566	October 29, 1991	ALA. CODE § 27-41-4 (1975) and ALA. CODE § 27-41-34(b)(2)(c)(1975)
36 Lucca@	~3,600	2,500	3,600	January 23, 1980	ALA. CODE § 27-41-4 (1975),



					ALA. CODE § 27-41-34(b)(2)(c)(1975) and ALA. CODE § 27-37-7(1975)
Texaskana, AR@	~7,874		7,874	January 29, 1993	ALA. CODE § 27-41-4 (1975) and ALA. CODE § 27-41-34(b)(2)(c)(1975)
Land #	19,294	4,300		Not reported	ALA. CODE § 27-37-7(1975)
<b>TOTAL</b>			<b>\$ 42,401</b>		

\* = Per Schedule A- Part 1

& = Fair value is reflected if the Company was not in compliance with ALA. CODE § 27-37-7(1975).

# = Land was nonadmitted by the Company

\*\* = The difference between the fair value and book value was nonadmitted if not in accordance with ALA. CODE § 27-37-7(1975) and only if the total book value was not fully nonadmitted (total difference nonadmitted was \$2,200).

~ = Amount nonadmitted. The total nonadmitted was \$42,401.

ALA. CODE § 27-41-4 (1975) states the following:

"No investment ... shall be an eligible investment unless it is interest-bearing or interest accruing or dividend or income-paying, is not then in default, and the insurer is entitled to receive for its account and benefit the interest or income accruing thereon."

ALA. CODE § 27-41-34(b)(2)(c)(1975), states that unless granted an extension period by the Commissioner,

"... an insurer may not carry as an admitted asset real estate acquired under this subsection following 10 years from the date of acquisition."

ALA. CODE § 27-37-7 (b) (1975) states that a property

"shall not be valued in an amount in excess of fair value as determined by a recent appraisal."

The Company did not provide an appraisal for its Rental Property; therefore, the fair value could not be determined for this property. For the six properties with fair values less than book values, the Company did not comply with ALA. CODE § 27-37-7(1975), as cited above, nor did it comply with the NAIC Accounting Practices and Procedures Manual SSAP 40, paragraph 9, which states

"... If the fair value of the asset is less than the carrying value, the asset shall be written down to the fair value thereby establishing a new cost basis..."

The Company's December 31, 2004 balance sheet reported \$293,551 for Real estate: Properties held for sale with an admitted amount of \$254,312 and reported \$0 for Real estate: Properties occupied by the company and Real estate: Properties held for the production of income. Per the Company's 2004 Schedule A- Part 1, the Company reported the following:

Properties occupied by the reporting entity-	\$ 15,000
Properties held for the production of income-	97,409
Properties held for sale-	219,606
Total per Schedule A- Part 1	332,015

The balance sheet did not reconcile with the Company's Schedule A- Part 1, which was not in accordance with the NAIC Annual Statement Instructions.

The Company did not complete column five, six, or seven, and did not correctly complete column ten for each property listed within Schedule A- Part 1 in accordance with the NAIC Annual Statement Instructions.

#### **Note 4- Cash**

**\$904,142**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement. On January 24, 2006, the verification of this asset had not been completed by the examiners.

At December 31, 2004, the Company did not report interest received or accrued during the year on its 2004 Schedule E- Part 1- Cash, which was not in accordance with the NAIC Annual Statement Instructions.

The Company had a repurchase agreement with SouthTrust Bank. At December 31, 2004, the collateral's fair value was equal to 100% of the purchase price of the investment. According to the NAIC Accounting Practices and Procedures Manual-SSAP No.45, paragraph 8a,

"The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities. If at any time the fair value of the collateral is less than 100 percent of the purchase price paid by the reporting entity, the counter party shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102 percent of the purchase price."

Note 5 of the Company's 2004 Notes to Financial Statement did not disclose this repurchase agreement. According to the NAIC Accounting Practices and Procedures Manual-SSAP No.45, paragraph 18, certain information needs to be disclosed in the financial statements regarding repurchase agreements. The NAIC Annual Statement Instructions states to report repurchase agreements in Note 5 E of the Notes to Financial Statement.

The Company reported its repurchase agreement net of the Company's cash account on Schedule E-Part 1 at December 31, 2004. However, the NAIC Annual Statement Instructions state to report repurchase agreements with maturity dates less than a year on Schedule DA-Part 1.

**Note 5- Contract loans**

**\$440,090**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

As of January 24, 2006, no work was performed on the verification of this asset. On November 16, 2005, a request for the detailed listing of policy loans containing the cash surrender values per policy at December 31, 2004, was made. The Company did not provide this information during the course of the examination, which was not in accordance with ALA. CODE § 27-27-29(a)(1975) or Alabama Department of Insurance Regulation No. 118, Section 6. According to ALA. CODE § 27-27-29(a)(1975),

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted.”

According to Alabama Department of Insurance Regulation No. 118, Section 6,

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner...”

**Note 6- Aggregate write-ins for invested assets**

**\$29,256**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

As of January 24, 2006, no work was performed on the verification of this asset.

**Note 7- Premiums and considerations: Uncollected premiums  
and agents' balances in the course of collection**

**\$593,313**

The captioned amount is \$518,187 less than the \$1,111,500 amount reported by the Company in its 2004 Annual Statement, and consisted of the due premiums in the amount of \$518,187, being not admitted for the purpose of statutory reporting.

The EDP file provided by the Company consisted of various fields, including a "Due Date" field. The examiners determined, utilizing ACL, that the total gross amount of due premiums, according to the EDP files provided by the company was \$1,017,208 gross and \$518,187 (net of loading). Then utilizing the "Due Date" field, the examiners performed an aging (utilizing ACL) and determined that \$750,953 of the gross due premiums was over ninety days old. The examiners provided their findings to Company management and as of January 24, 2006, Company management did not provide an explanation on what appeared to be a data integrity issue of the due premium data. Due to this data integrity issue, the examiners have non-admitted the entire net due premium of \$518,187 in accordance with the guidance provided by *SSAP No. 51, paragraph 12*, of the NAIC Accounting Practices and Procedures Manual, which states:

"Gross premiums that are due and unpaid as of the reporting date, net of loading, shall be classified as uncollected premiums. Uncollected premium balances which are less than 90 days past due meet the definition of asset, as defined in *SSAP No. 4 - Assets and Nonadmitted Assets*, and are admitted assets to the extent they conform to the requirements of this statement."

The examiners note that 1.) If the premiums are indeed over ninety days old, the policies should have been lapsed by the Company, 2.) The Company should also have taken down the reserve for these policies and established a reserve for the applicable non-forfeiture options, 3.) It is not anticipated that there would not be a material difference between the reserve carried on an active policy and the reserve carried for the non-forfeiture option.

ALA CODE § 27-27-29(a) (1975), which states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs..."

The examiners requested application files for a sample of seventy-six items selected from the deferred premiums listing. The Company was unable to locate twenty-four application files, which was in conflict with the aforementioned statute ALA CODE §

27-27-29(a) (1975). Since the Company could not provide the application files, the aging details and had data integrity issues, the accuracy of the due and deferred premium listing could not be determined, which **contributed to the qualification of this examination report.**

The Company did not provide the reconciliation of the due and deferred premiums in a timely manner in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner...”

**Note 8- Guaranty funds receivable or on deposit**

**\$187,699**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

On September 27, 2005, detail was requested for this asset. The Company did not provide this detail, which was not in accordance with ALA. CODE § 27-27-29(a)(1975) nor Alabama Department of Insurance Regulation No. 118, Section 6. According to ALA. CODE § 27-27-29(a)(1975),

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted.”

According to Alabama Department of Insurance Regulation No. 118, Section 6,

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner...”

**Note 9- Other assets nonadmitted**

**\$-0-**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

This asset, which was completely nonadmitted, was comprised of the following:

	<u>Description</u>	<u>Amount</u>
1.	Collection shortages	\$636,898
2.	North Carolina Mutual (policy acquisition cost)	70,000
3.	United Systems and software purchase and installation	82,697
4.	Utility deposits	<u>1,274</u>
	<b>Amount</b>	<b><u>\$790,869</u></b>

### **1. Collection shortages**

The Company reported the \$636,898 amount as an asset and nonadmitted the amount by charging it against its surplus. The examination established that the account balance consisted of shortages in the premiums amount, and included uncollected agents balances. The journal entry to record the transaction was a debit to collection shortages and credit to the premium income. The \$636,898 amount reported by the Company in its Annual Statement did not meet the definition of an “asset” according to the guidance provided by SSAP No 4, paragraph 2 of the NAIC Accounting Practices and Procedures Manual, which states:

“For purpose of statutory accounting, an asset shall be defined as: probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events. An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others’ access to it, and (c) the transaction or other events giving rise to the entity’s right to or control of the benefit had already occurred...”

The \$636,898 amount was charged to operations in accordance with the guidance provided by SSAP No. 4, paragraph 4 of the NAIC Accounting Practices and Procedures Manual, which states:

“Transactions which do not give rise to assets as defined in paragraph 2, shall be charged to operations in the period the transactions occur. Those transactions which result in amounts which may meet the definition of assets, but are specifically identified within the Accounting Practices and Procedures Manual as not giving rise to assets (e.g., policy acquisition cost), shall also be charged to operations in the period the transactions occur.”

### **2. North Carolina Mutual (policy acquisition cost)**

The \$70,000, balance net of amortization, is the policy acquisition cost paid by Protective Industrial Insurance Company (PIICO), for the acquisition of policies from North Carolina Mutual. The amount was recorded by the Company as an asset and nonadmitted with a charge to surplus. According to the guidance provided by SSAP

No. 71, paragraph 2 of the NAIC Accounting Practices and Procedures Manual, which states:

“Acquisition costs are those costs that are incurred in the acquisition of new and renewal insurance contracts and include those cost that vary with and are primarily related to the acquisition of insurance contracts (e.g., agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees). Acquisition costs and commissions shall be expensed as incurred. Determination of when acquisition costs and commissions have been incurred shall be made in accordance with *SSAP No 5 – Liabilities, Contingencies and Impairments of Assets*.”

The remaining \$70,000 was charged to operations in accordance with the aforementioned guidance in this Report of Examination.

### **3. United Systems and software purchase and installation**

The \$82,697 in software purchase and installation incurred by Protective Industrial Insurance Company (PIICO) before the PIICO and the Company was acquired by Booker T. Washington Insurance Company (BTW). After acquisition the United Systems and software was never utilized by the Company. After the acquisition of PIICO by BTW, the Company should have evaluated the asset in light of the guidance provided by SSAP No. 4, paragraph 2 of the NAIC Accounting Practices and Procedures Manual, which states:

“For purpose of statutory accounting, an asset shall be defined as: probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events. An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others’ access to it, and (c) the transaction or other events giving rise to the entity’s right to or control of the benefit had already occurred...”

For the purposes of this examination report, this amount is written-off through the summary of operations in accordance with the guidance provided by SSAP No. 4, paragraph 4 of the NAIC Accounting Practices and Procedures Manual, which states:

“Transactions which do not give rise to assets as defined in paragraph 2, shall be charged to operations in the period the transactions occur. Those transactions which result in amounts which may meet the definition of assets, but are specifically identified within the Accounting Practices and Procedures Manual as not giving rise to assets (e.g., policy acquisition cost), shall also be charged to operations in the period the transactions occur.”

#### **4. Utility deposits**

The amount was nonadmitted by the Company and the examiners.

#### **Note 10- Aggregate reserve for life contracts**

**\$15,086,000**

The captioned liability is \$147,163 more than the \$14,938,837 amount reported by the Company in its 2004 Annual Statement. As of January 24, 2006, the examination of this liability was not completed with the only known adjustment as follows:

<u>Description</u>	<u>Amount</u>
1. Life Term Plans	\$147,163
2. Asset Adequacy Analysis	-0-
3. Mid-terminal reserve basis	-0-
4. Accidental death benefit and waiver of premium benefit	-0-
5. Additional exceptions noted	-0-
<b>TOTAL</b>	<b><u>\$147,163</u></b>

#### **(1) Life Term Plans**

The Company recorded no reserves on these policies. A request was made on January 24, 2006 to explain why these policies were not on the December 31, 2004 in force valuation record. No response was received as of the date of this examination report, which was not in accordance with Alabama Department of Insurance Regulation No. 118, Section 6 that states

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

The Company had treated the plan as thirty year term, but there was no termination age or termination date in the policy. The policy simply states, "A like premium is payable on each of the Due Dates stated on the first page until the prior death of the Insured." Thus the policy should be reserved as whole life insurance. The opining actuary of the Company elected to compute a whole life reserve on each policy and the adjustment to the reserves was \$147,163. This reserve amount was not verified by the actuarial examiner.

#### **(2) Asset Adequacy Analysis**

The asset adequacy analysis performed by the opining actuary of the Company was performed with inadequate justification of the assumptions used in the analysis for



year ending 2004. The reserve adjustment cited above would also affect the asset adequacy analysis. It appears that the asset adequacy analysis was based upon assumptions that are not representative of and do not approximate the actual mortality, lapses and investment yield of the Company over the last several years as required by the actuarial opinion and memorandum regulation. The actuarial examiner requested on January 18, 2006, that the opining actuary of the Company provide a revised asset adequacy analysis that would address these issues. Because of these outstanding issues, the actuarial examiner was unable to quantify the amount of the adjustment that the revision in the asset adequacy analysis would produce. As of January 27, 2006 or the date of this examination, the Alabama Department of Insurance had not been furnished a revised asset adequacy analysis that would address these issues. These issues may cause a substantial and significant policy reserve deficiency.

### **(3) Mid-terminal reserve basis**

The mid-terminal reserve basis is to be accompanied by unearned premiums paid past the date of valuation to the next anniversary date. The Company has not recorded these unearned premium reserves on those policies that utilize the mid-terminal reserve basis.

### **(4) Accidental death benefit and waiver of premium benefit**

The Company has not set up a reserve for the embedded benefits in its industrial policies of accidental death and waiver of premium. The Company will need to record reserves for those two benefits. The Company also has some life policies that have a built in accident and health benefit which were not being reserved. The examination actuary had requested the opining actuary to provide reserves for those accident and health benefits but had not received this information as of the examination date.

### **(5) Additional exceptions noted**

The Company's independent CPAs relied upon the Company's opining actuary's reserve calculations instead of hiring an actuarial firm or qualified actuary to test the Company's reserves. According to the NAIC Annual Statement Instructions, the insurer shall require the independent certified public accountant to subject the information included in the Supplemental Schedule of Assets and Liabilities to the auditing procedures applied in the audit of the current statutory financial statements to determine whether such information is fairly stated in all material respects in

relation to the basic statutory financial statements as a whole and agrees to the insurer's annual statement filed with the state insurance departments and the NAIC.

When reconciling the Company's detail for the amount of insurance on its policies in force at December 31, 2004, the detail was \$2,040,460 more than the amount reported in its 2004 Exhibit of Life Insurance. An explanation was requested on August 2, 2005; however, the explanation was not provided for this variance until February 3, 2006, which was not in accordance with Alabama Department of Insurance Regulation No. 118, Section 6. Per this regulation,

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

Also, the Company did not provide documentation for its Accidental Death Benefit reserves, Disability-Active Lives or Disabled Lives, or its Miscellaneous Reserves totaling \$153,844, which was not in accordance with ALA. CODE § 27-27-29 (1975). According to ALA. CODE § 27-27-29 (1975),

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs..."

This contributed to the qualification of the examination report.

The Company provided a 2004 premium listing by policy number; however, the Company did not provide a reconciliation tying this listing to its 2004 Annual Statement. The examiner attempted to reconcile the data set to the Company's 2004 Exhibit 1- Part 1; however, there was a difference of \$200,561 (data set more than the exhibit). This information was originally requested on August 2, 2005. According to ALA. CODE § 27-27-29 (1975),

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs..."

According to Alabama Department of Insurance Regulation No. 118, Section 6,

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

A sample of premium paying policies could not be selected due to this reconciliation problem contributing to not completing the review of this liability. This also contributed to the qualification of the report.

For a sample of 76 application files, the Company did not provide explanations why thirty policies were not on the in force valuation record at December 31, 2004, nor were explanations provided for two face amount variances. This information was originally requested on November 3, 2005. According to ALA. CODE § 27-27-29 (1975),

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs..."

According to Alabama Department of Insurance Regulation No. 118, Section 6,

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

For a sample of 76 2005 paid claims, twenty policies were not on the in force valuation record at December 31, 2004, and thirty-five application files were not provided. Application files and explanations why these policies were not on the in force valuation record were requested on November 30, 2005; however, the Company did not provide a response to this request. According to ALA. CODE § 27-27-29 (1975),

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs..."

According to Alabama Department of Insurance Regulation No. 118, Section 6,

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

**Note 11- Aggregate reserves for accident and health contracts** **\$16,110**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement. The examiners did not complete their review of this line item.

According to a Company official, the Company was unable to locate 26 accident and health application files out of a sample of 32, which was not in accordance with ALA. CODE § 27-27-29 (1975), which states

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs ..."

This contributed to the qualification of this examination report.

In the original asset adequacy analysis, some of the assumptions used in the analysis do not approximately reproduce the actual experience of the Company, such as the morbidity experience, the lapse experience and the investment yield. Thus, the analysis may change drastically due to the use of inappropriate assumptions that do not approximate the actual experience of the Company and the changes required to be made to the due, deferred and advance premiums and possible changes to the reserves.

**Note 12- Policy and contract claims: Life**

**\$241,626**

The captioned amount is \$23,022 more than the \$218,604 reported by the Company in its 2004 Annual Statement. The examiners did not complete the review of this liability. The \$23,022 was comprised of two adjustments (\$16,464 and \$6,558), which are discussed below.

During a review of 2005 paid industrial and ordinary life claims, it was determined that the Company paid \$23,464 for life claims received prior to 2005 and paid in 2005. The Company reported \$7,000 for industrial and ordinary life claims at December 31, 2004, which was understated by \$16,464. The \$23,464 should have been either reported as Claims Due and Unpaid or In Course of Settlement at December 31, 2004. According to the NAIC Accounting Practices and Procedures Manual- SSAP No. 55 paragraph 4,

"Liabilities shall be established for any unpaid claims and unpaid losses..." Guidelines for classifying these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55 paragraph 6.b. i. - iv., which contains "Claim Liabilities for Life/Accident and Health Contracts: i. Due and Unpaid Claims...iv. Incurred But Not Reported Claims..."

This examination report does not allow a credit for the reserves the Company had established for these policies at December 31, 2004; however, no additional review was done to ensure that the Company's Incurred But Not Reported liability amount was adequate past May 2005.

The Company did not record a claims adjustment expense liability. Using a factor of 3% of the life claims liability gives a claims adjustment expense of \$6,558.

For a sample of eleven 2005 paid life claims, the Company did not provide three of these claim files, which was not in accordance with ALA. CODE § 27-27-29 (1975). Per the aforementioned statute,

"Every domestic insurer... shall keep therein complete records of its assets, transactions and affairs..."

This contributed to the qualification of the examination report.

The 2004 paid claims detail that reconciled with the Company's 2004 Exhibit 8- Part 2 was requested on September 22, 2005. As of the date of the examination report, the Company had not provided a reconciliation detailing how the 2004 claims paid data set reconciled with the Company's 2004 Exhibit 8- Part 2, which was not in accordance with ALA. CODE § 27-27-29 (1975) (cited above) or Alabama Department of Insurance Regulation No. 118, Section 6. Per the aforementioned regulation,

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

This contributed to the qualification of the examination report.

**Note 13- Policy and contract claims: Accident and health** **\$35,929**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement. As of January 24, 2006, the review of this liability was not completed.

The 2004 paid claims detail that reconciled with the Company's 2004 Exhibit 8- Part 2 was requested on September 22, 2005. As of the date of the examination report, the Company had not provided a reconciliation detailing how the 2004 claims paid data sets reconciled with the Company's 2004 Exhibit 8- Part 2, which was not in accordance with ALA. CODE § 27-27-29 (1975) or Alabama Department of Insurance Regulation No. 118, Section 6. Per the aforementioned statute,

"Every domestic insurer... shall keep therein complete records of its assets, transactions and affairs..."

Per the aforementioned regulation,

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

This contributed to the qualification of this examination report.

**Note 14- Policyholders' dividends and coupons due and unpaid**      **\$2,489**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

The Company did not complete Note 29 regarding its participating policies in accordance with the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual- SSAP No.51, paragraph 41. SSAP No. 51, paragraph 41 requires the disclosure of the relative percentage of participating insurance, the method of accounting for policyholder dividends, the amount of dividends, and the amount of any additional income allocated to participating policyholders in the financial statements.

**Note 15- Premiums and annuity considerations received in advance**      **\$61,786**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement. As of January 24, 2006, the review of this liability had not been completed by the examiners.

The premium database provided by the Company calculated the due and deferred premium and also had a field that calculated the premiums received in advance at December 31, 2004. In "Note 7- Uncollected premiums and agents' balance in course of collection" under the caption NOTES TO FINANCIAL STATEMENTS, the examiners had established that the Company's premium database had data integrity issues. The Company should correct the data integrity issues so the Company's accounts and records can be verified as required by ALA. CODE § 27-27-29 (1975) which state:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted."

### 3. Unidentified cash receipts.

The Company did not provide a response to this request, which was not in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which requires that:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner..."

#### Note 21- Asset valuation reserve

\$434,915

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

The examiner reviewed the Company's asset valuation reserve (AVR) calculation and established that the Company had inappropriately recorded the book value of real estate in the amount of \$312,721 instead of the balance sheet amount of \$254,312, which was in conflict with the NAIC Annual Statement Instructions (see "Note 3- Real Estate: Properties held for sale" under the "NOTES TO FINANCIAL STATEMENTS" for additional commentary). The examination changes in the amount of \$42,401 reduced the real estate asset to \$211,911, which was utilized by the examiner in the recalculation of AVR. This recalculated AVR was \$7,562 less than the amount reported by the Company. This amount was determined to be immaterial with no adjustments being made to the Company's surplus. As of January 24, 2006, the review of this liability had not been completed.

#### Note 22- Aggregate write-ins for liabilities

\$291,251

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

A review of the accounts and records indicated that the Company had reported escrows for mortgage loans in *Aggregate write-ins for liabilities* instead of *Amounts withheld or retained by company as agent or trustee*. The guidance provided by the NAIC Annual Statement Instructions for the *Amounts withheld or retained by company as agent or trustee* line item was as follows:

"Employees' FICA, unemployment contributions, and other withholdings, as well as amounts held in escrow for payment of taxes, insurance, etc. under F.H.A. or other mortgage loans or held for guarantee of contract performance and any other funds that the company holds in a fiduciary capacity for the account of others."

A review of the account balances indicated that \$31,538 in checks issued prior to 1999, which became escheatable property five years after the moneys were due, were reported as liability; however, the funds were not transferred in the custody of the State of Alabama, as require by Alabama Department of Insurance Regulation No. 66(1979), which states:

"All unclaimed funds in the proccession, or under the control of an insurer shall, at all times, be maintained as a liability on the books of the insurer. This requirement shall remain in effect until the funds are claimed or transferred to the custody of the State of Alabama..."

And in accordance with ALA.CODE §35-12-31 (b) (1975), which states:

"Every person holding funds or other property, tangible or intangible, presumed abandoned under this article shall report to the Treasurer with respect to the property and deliver the property to the Treasurer as hereinafter provided..."

**Note 23- Common capital stock**

**\$1,054,144**

The captioned amount is the same as reported by the Company in its 2004 Annual Statement.

The Company did not complete general interrogatory number 18 regarding information on its common capital stock in its 2004 Annual Statement, which was not in accordance with the NAIC Annual Statement Instructions.

**Note 24- Unassigned funds**

**\$(1,683,111)**

The captioned amount is \$730,773 less than the \$(952,338) reported by the Company in its 2004 Annual Statement.

The following presents a reconciliation of unassigned funds per the Company's filed 2004 Annual Statement to the Unassigned funds per the examination of the items that the examiners were able to make a determination of the amounts:



<b>Unassigned funds per Company</b>		<b>\$ (952,338)</b>
<b><u>Examination increase /(decrease )to assets:</u></b>		
• Real estate	(42,401)	
• Uncollected premiums and agents' balances in course of collection	(518,187)	
<b><i>Total increase/(decrease) to assets</i></b>	<b><u>\$(560,588)</u></b>	
<b><u>Examination (increase)/decrease to liabilities:</u></b>		
• Aggregate reserve for life contracts	\$(147,163)	
• Contract claims: Life	(23,022)	
<b><i>Total (increase) /decrease to liability</i></b>	<b><u>\$(170,185)</u></b>	
<b>Net Increase / (Decrease)</b>		<b><u>\$ (730,773)</u></b>
<b>Unassigned funds (surplus) per examination</b>		<b><u>\$(1,683,111)</u></b>

## **COMMITMENTS AND CONTINGENT LIABILITIES**

There were no commitments or contingent liabilities reported at December 31, 2004. Company management provided a signed letter of representation. The examiners did not obtain confirmations from the Company's outside attorneys.

## **SUBSEQUENT EVENTS**

The examiners requested the following with regard to subsequent events on November 16, 2005:

1. The January through September 2005 cash receipts journal in electronic format and a reconciliation to the general ledger for this detail;
2. The January through September 2005 general journal entries;
3. The third 2005 quarterly financial filing;
4. The minutes of meetings for directors, stockholders and important committees through November 16, 2005 and drafts of proxy statements issued to shareholders.
5. A written response from the Company's officers and other executives having responsibility for financial and accounting matters for the following:

- a. Whether the interim statements have been prepared on the same basis as that used for the statements under examination.
- b. Whether any substantial contingent liabilities or commitments existed at December 31, 2004 or at November 16, 2005.
- c. Whether there was any significant change in the capital stock or debt to the date of inquiry.
- d. The current status of items in the financial statements being reported on that were accounted for on the basis of tentative, preliminary, or inconclusive data.
- e. Whether any other matters had occurred that would materially affect the Company's financial statements or operations of the Company. This includes any subsequent events of material affiliates accounted for by the equity method.

On February 2, 2006, the Company provided the 2005 cash receipts (but no reconciliation to the general ledger), the 2005 general journal entries, and the third quarterly 2005 financial statement. This information was not reviewed by the examiners because new examination work ceased on January 24, 2006. The Company did not provide a response to number 5, its minutes for 2005 or the reconciliation of its 2005 cash receipts to its general ledger, which was not in accordance with Alabama Department of Insurance Regulation No. 118, Section 6 or ALA. CODE § 27-27-29 (1975). According to Alabama Department of Insurance Regulation No. 118, Section 6,

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

ALA. CODE § 27-27-29 (1975) states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted."

### **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

The examiners did not complete this portion of the examination.

## **COMMENTS AND RECOMMENDATIONS**

### **Board of Directors – Page 7**

**It is recommended** that investments made by the Company be authorized, approved or ratified by the board of directors in accordance with ALA. CODE § 27-41-5(1975), which states:

“An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee...”

### **Conflict of Interest- Page 8**

**It is recommended** that the Company correctly complete its conflict of interest general interrogatory in accordance with the NAIC Annual Statement Instructions.

### **Organization Chart – Page 9**

**It is recommended** that the Company insert an organizational chart in Schedule Y-Part 1 of its Annual Statement as required by the NAIC Annual Statement Instructions.

### **Fidelity Bonds – Page 11**

**It is recommended** that the Company obtain the suggested minimum amount of fidelity coverage as recommend by the NAIC Financial Examiner's Handbook.

### **Territory – Page 12**

**It is recommended** that the Company complete its Schedule T in future financial filings in accordance with the NAIC Annual Statement Instructions.

### **Policy forms and Underwriting Practices – Page 13**

**It is recommended** that the Company respond to written requests within ten working days in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the

insurer within ten working days, the nonproduction shall be deemed a violation of this rule..."

### **Claims Payment Practices – Page 14**

**It is recommended** that the Company maintain the detail that comprises its reported paid claims in accordance with ALA. CODE § 27-27-29 (a) (1975), which requires that:

"Every domestic insurer shall have, and maintain...complete records of its assets, transactions and affairs...as to the kind, or kinds, of insurance transacted."

**It is recommended** that the Company provide responses within ten days to written requests in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which requires that:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule..."

### **Policyholder Complaints – Page 15**

**It is recommended** that the Company maintain detail records of its complaint procedures in accordance with ALA. CODE § 27-27-29 (a) (1975), which requires that:

"Every domestic insurer shall have, and maintain...complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

**It is recommended** that the Company acknowledge in its written procedures its responsibility for responding to customers and/or the Alabama Department of Insurance (ALDOI) within ten days. Alabama Department of Insurance Bulletin dated January 31, 1963, requires that:

"An insurance company must answer both policyholder and this Department within ten days after receipt of a departmental complaint."

## **Privacy Standards – Page 16**

**It is recommended** that the Company implement a Confidentiality and Security Disclosure in its Customer Service procedures, which specifically addresses protecting the confidentiality and security of policyholders and consumers nonpublic personal information in accordance with ALA. ADMIN. CODE 482-1-122.07(6) (2001).

**It is recommended** that the Company specifically disclose in its Customer Service Procedures and Home Office Training materials its responsibility for training employees regarding the protection of and implementation of its information security program in accordance with ALA. ADMIN. CODE 482-1-126-.08 (2001).

**It is also recommended** that the Company provide a response to the examiners for items requested during the course of the examination in accordance with Alabama Department of Insurance Regulation No. 118, Section 6. Alabama Department of Insurance Regulation No. 118, Section 6, requires that:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule...”

## **Reinsurance - Page 17**

**It is recommended** that the Company report the ceded reinsurance premiums and the claims liabilities and incurred amounts for the business ceded to American Capitol Insurance Company in its future financial filings in accordance with the NAIC Annual Statement Instructions.

**It is recommended** that the Company include all required reinsurance disclosures in its future Notes to Financial Statements as required by NAIC Accounting Practices and Procedures Manual SSAP No. 61.

## **Accounts and Records - Page 18**

**It is recommended** that the Company complete its Five-Year Historical Data Schedule in accordance with the NAIC Annual Statement Instructions.

**It is recommended** that the Company provide all requested information within ten working days in accordance with the Alabama Department of Insurance Regulation No. 118, Section 6, which states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule...”

**It is recommended** that the Company update and test its disaster recovery plan to ensure its effectiveness and strength of its IS Department and implement a current business contingency plan in order to analyze the impact of the Company's business, address all significant business activities, including financial functions, telecommunication services, data processing and network services.

### **Bonds – Page 27**

**It is again recommended** that the Company review prepayment assumptions for its loan-backed securities in accordance with NAIC Accounting Practices and Procedures Manual SSAP No. 43, paragraph 9-12, which states:

“9. Prepayments are a significant variable element in the cash flow of loan-backed securities because they affect the yield and determine the expected maturity against which the yield is evaluated. Falling interest rates generate faster prepayment of the mortgages underlying the security, shortening its duration. This causes the reporting entity to reinvest assets sooner than expected at potentially less advantageous rates. This is called prepayment risk. Extension risk is created by rising interest rates which slow repayment and can significantly lengthen the duration of the security.

10. Changes in prepayment assumptions and the resulting cash flows shall be reviewed periodically. For securities that have the potential for loss of a portion of the original investment due to changes in interest rates or prepayments, the review shall be performed at least quarterly. For other securities, the review shall be performed at least annually. Examples of securities that have the potential for loss of a portion of the original investment include CMO residuals and mortgage-backed interest-only certificates. For these securities, an effective yield or internal rate of return is calculated at acquisition based on the purchase price and anticipated future cash flows.

11. The prepayment rates of the underlying loans shall be used to determine prepayment assumptions. Prepayment assumptions shall be applied consistently across portfolios to all securities backed by similar collateral (similar with respect to coupon, issuer, and age of collateral). Reporting entities shall use consistent assumptions across portfolios for similar collateral within controlled affiliated groups. Since each reporting entity may have a unique method for determining the prepayment assumptions, it is impractical to set standard assumptions for the industry. Relevant sources and rationale used to determine each prepayment assumption shall be documented by the reporting entity.

12. Loan-backed securities shall be revalued using the new prepayment assumptions using either the prospective or retrospective adjustment methodologies, consistently applied by type of securities."

The prepayment assumption methodologies used should either be prospective or retrospective with guidance for these methodologies found in Paragraphs 13 and 14 of SSAP No. 43 in the NAIC Accounting Practices and Procedures Manual. This was also noted in the prior examination.

### **Mortgage loans on real estate – Page 27**

**It is recommended** that the Company appropriately complete Schedule B- Part 1 in future financial statements in accordance with the NAIC Annual Statement Instructions.

### **Real estate – Page 28**

**It is recommended** that the Company not admit real property that is not interest-bearing or interest-accruing or dividend or income-paying in accordance with ALA. CODE § 27-41-4 (1975), which states that:

"No investment ... shall be an eligible investment unless it is interest-bearing or interest accruing or dividend or income-paying, is not then in default, and the insurer is entitled to receive for its account and benefit the interest or income accruing thereon."

**It is recommended** that the Company not admit real property that is acquired as satisfaction of debt following ten years from the date of acquisition in accordance with ALA. CODE § 27-41-34(b)(2)(c)(1975) ), states that unless granted an extension period by the Commissioner,

"... an insurer may not carry as an admitted asset real estate acquired under this subsection following 10 years from the date of acquisition."

**It is recommended** that the Company acquire and maintain recent appraisals on all properties and not value its properties in an amount in excess of fair value in accordance with ALA. CODE § 27-37-7 (b) (1975), which states that a property

"shall not be valued in an amount in excess of fair value as determined by a recent appraisal."

**It is recommended** that the Company's real estate carrying value per the Company's balance sheet tie to its Schedule A- Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company correctly complete columns five, six, seven, and ten for each property listed within its Schedule A- Part 1 in accordance with the NAIC Annual Statement Instructions.

### **Cash and short-term investments – Page 30**

It is recommended that the Company have collateral with a fair value equal to at least 102% of the purchase amount of the investment in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP No.45, paragraph 8a.

It is recommended that the Company report repurchase agreements in accordance with SSAP 45, paragraph 18 and the NAIC Annual Statement Instructions.

It is recommended that the Company report its repurchase agreement on Schedule DA-Part 1 in accordance with the NAIC Annual Statement Instructions.

### **Contract loans- Page 31**

It is recommended that the Company provide responses to written requests within ten business days in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner...”

It is recommended that the Company maintain the cash surrender values per policy for the contract loans reported in its financial statements in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted.”

### **Uncollected premiums and agents' balance in course of collection – Page 32**

It is recommended that Company maintain complete records of its due and deferred premium transactions, including aging reports in compliance with ALA CODE § 27-27-29(a) (1975), which states:



“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs...”

**It is recommended** that the Company only admit premiums due and unpaid which are less than 90 days past due, as specified by *SSAP No. 51, paragraph 12*, of the NAIC Accounting Practices and Procedures Manual, which states:

“Gross premiums that are due and unpaid as of the reporting date, net of loading, shall be classified as uncollected premiums. Uncollected premium balances which are less than 90 days past due meet the definition of asset, as defined in *SSAP No. 4 – Assets and Nonadmitted Assets*, and are admitted assets to the extent they conform to the requirements of this statement.”

**It is recommended** that the Company provide requested information including the reconciliation of the due and deferred premiums in a timely manner in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner...”

**It is recommended** that the Company maintain complete records including the application files and resolve its data integrity issues as required by ALA CODE § 27-27-29(a) (1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs...”

### **Guaranty funds receivable or on deposit- Page 33**

**It is recommended** that the Company provide requested information within ten working days in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner...”

**It is recommended** that the Company maintain detail of its Guaranty funds receivable or on deposit in accordance with ALA. CODE § 27-27-29(a)(1975), which states

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted.”

### **Other assets nonadmitted- Page 33**

**It is recommended** that the Company review its transactions to determine if the transactions meet the definition of assets as required by SAP No 4, paragraph 2, of the NAIC Accounting Practices and Procedures Manual, which states:

“For purpose of statutory accounting, an asset shall be defined as: probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events. An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others’ access to it, and (c) the transaction or other events giving rise to the entity’s right to or control of the benefit had already occurred...”

**It is recommended** that the Company write-off expenses through the summary of operations in accordance with the guidance provided by SSAP No. 4, paragraph 4, of the NAIC Accounting Practices and Procedures Manual, which states:

“Transactions which do not give rise to assets as defined in paragraph 2, shall be charged to operations in the period the transactions occur. Those transactions which result in amounts which may meet the definition of assets, but are specifically identified within the Accounting Practices and Procedures Manual as not giving rise to assets (e.g., policy acquisition cost), shall also be charged to operations in the period the transactions occur.”

**It is recommended** that the Company write-off the acquisition cost of policy contracts in accordance with the guidance provided by SSAP No. 71, paragraph 2, of the NAIC Accounting Practices and Procedures Manual, which states:

“Acquisition costs are those costs that are incurred in the acquisition of new and renewal insurance contracts and include those cost that vary with and are primarily related to the acquisition of insurance contracts (e.g., agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees). Acquisition costs and commissions shall be expensed as incurred. Determination of when acquisition costs and commissions have been incurred shall be made in accordance with *SSAP No 5 – Liabilities, Contingencies and Impairments of Assets.*”

### **Aggregate reserve for life contracts - Page 36**

**It is recommended** that the Company record reserves, deferred premiums and advance premiums for policies in force under the plan “Life Term Plan.”

**It is recommended** that the Company's opining actuary prepare a revised asset adequacy analysis opinion that is based upon assumptions that approximate the Company's actual experience for mortality, lapses and investment yield. The analysis should also take into account any revisions to reserves and due, deferred and advance premiums.

**It is recommended** that the Company calculate and record an unearned premium reserve for those policies that utilize the mid-terminal reserve basis.

**It is recommended** that the Company record reserves for embedded benefits in its industrial life insurance policies for accidental death and waiver of premium.

**It is recommended** that the Company record reserves for its industrial life insurance policies that have a built in accident and health insurance benefit.

**It is recommended** that the Company complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions for future financial filings.

**It is recommended** that the Company respond to all requests within ten working days in accordance with Alabama Department of Insurance Regulation No. 118, Section 6. **It is also recommended** that the Company maintain supporting records including all calculations of its Aggregate reserve for life contracts in accordance with ALA. CODE § 27-27-29 (1975), which states:

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs..."

**It is recommended** that the Company maintain its policy applications in accordance with ALA. CODE § 27-27-29(a) (1975) (see citation above).

**It is recommended** that the Company ensure that all premium paying, paid-up, and extended term policies are accounted for and reserves are set up for these policies on its in force valuation record in accordance with ALA CODE §27-36-7 (1975).

**It is recommended** that the Company maintain the detail of its premium collections that reconciles to the amounts reported in its general ledger and future financial filings and maintain all application files for its in force business in accordance with ALA. CODE § 27-27-29 (1975), which states:

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs..."

**It is recommended** that the Company require its CPAs to determine whether the Company's reserves are fairly stated in all material respects in accordance with the NAIC Annual Statement Instructions.

#### **Aggregate reserve for accident and health contracts – Page 39**

**It is recommended** that the Company maintain all inforce accident and health applications in accordance with ALA. CODE § 27-27-29 (1975), which states

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs ..."

**It is recommended** that the Company's opining actuary prepare a revised asset adequacy analysis opinion that is based upon assumptions that approximate the Company's actual experience for morbidity, lapses and investment yield. The analysis should also take into account any revisions to reserves and due, deferred and advance premiums.

#### **Contract claims: Life – Page 40**

**It is recommended** that the Company establish adequate amounts for its Contract claims: Life in its future financial statements in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP No. 55, paragraph 4. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55, paragraph 6.b. I. - i.v.

**It is recommended** that the Company record an appropriate claims adjustment expense liability each year.

**It is recommended** that the Company maintain claim files on its business and maintain the detail that comprises the claims paid amounts reported in financial filings in accordance with ALA. CODE § 27-27-29 (1975), which states:

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs..."

**It is recommended** that the Company provide records within ten working days from the request in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

#### **Contract claims: Accident and health - Page 41**

**It is recommended** that the Company maintain the detail that comprises the claims paid amounts reported in future financial filings in accordance with ALA. CODE § 27-27-29 (1975), which states:

"Every domestic insurer...shall keep therein complete records of its assets, transactions and affairs..."

**It is recommended** that the Company provide records within ten working days from the requested date in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner..."

#### **Policyholders' dividends and coupons due and unpaid - Page 42**

**It is recommended** that the Company disclose the relative percentage of participating insurance, the method of accounting for policyholder dividends, the amount of dividends, and the amount of any additional income allocated to participating policyholders in its future financial statements in accordance with the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual- SSAP No.51, paragraph 41.

#### **Premiums and annuity considerations for life and accident and health contracts received in advance- Page 42**

**It is recommended** that the Company resolve data integrity issues and maintain complete records of its transactions as required by ALA. CODE § 27-27-29 (1975), which states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted."

**It is recommended** that the Company provide requested items within ten days as required by Alabama Department of Insurance Regulation No. 118, Section 6, which states:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner..."

#### **Remittances and items not allocated – Page 43**

**It is recommended** that the Company respond to information requests in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner..."

#### **Asset Valuation Reserve - Page 44**

**It is recommended** that the Company report the book value of the real estate in the calculation of AVR according to the guidance provided by the NAIC Annual Statement Instructions.

#### **Aggregate write-ins for liabilities – Page 44**

**It is recommended** that the Company properly include mortgage loan escrows under *Amounts withheld or retained by company as agent or trustee* in accordance with the guidance provided by NAIC Annual Statement Instructions.

**It is recommended** that the Company file unclaimed property reports in accordance with Alabama Department of Insurance Regulation No. 66 and ALA. CODE § 35-12-31 (1975), which states:

"Every person holding funds or other property, tangible or intangible, presumed abandoned under this article shall report to the Treasurer with respect to the property and deliver the property to the Treasurer as hereinafter provided..."

### **Common capital stock- Page 45**

**It is recommended** that the Company complete all general interrogatories in accordance with the NAIC Annual Statement Instructions in its future financial filings.

### **Subsequent Events- Page 46**

**It is recommended** that the Company provide responses for requested information within ten business days in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner...”

and maintain complete records of its transactions in accordance with ALA. CODE § 27-27-29 (1975), which states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted."

## CONCLUSION

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

The Company did not provide all requested information to the examiners in accordance with Alabama Department of Insurance Regulation No. 118, Section 6, which states:

“The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee, or examiner of the commissioner...”

Details of the noted problems may be found in the MARKET CONDUCT ACTIVITIES and NOTES TO FINANCIAL STATEMENTS sections of this report, under the various captions to which they relate.

**THIS REPORT OF THE EXAMINATION IS QUALIFIED AND EXPRESSES NO OPINION ON THE ACCURACY OF THE FINANCIAL STATEMENTS OF UNIVERSAL LIFE INSURANCE COMPANY. FURTHERMORE, DUE TO THE COMPANY'S INABILITY OR UNWILLINGNESS TO PROVIDE INFORMATION REQUESTED BY THE EXAMINERS DURING THE COURSE OF THE EXAMINATION, THE EXAMINERS WERE UNABLE TO DETERMINE IF THE COMPANY WAS SOLVENT OR INSOLVENT. THE REASONS FOR THE QUALIFICATION OF THE REPORT CAN BE FOUND IN VARIOUS SECTIONS AND CAPTIONS OF THE REPORT.**

In addition to the undersigned, Rhonda B. Ball, Juliette N. Glenn, Tisha Freeman, Whitney E. Smith, Travis L. Crossland, Teray Kendall, Examiners, and Harland A. Dyer ASA, MAAA, FCA, and Joseph H. Tan, FSA, MAAA, Consulting Actuarial Examiners, all representing the Alabama Department of Insurance, participated in this examination of *Universal Life Insurance Company*.

Respectfully submitted,

Francis Blase Abreo

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